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# HOUSE BILL No. 1462

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## DIGEST OF INTRODUCED BILL

**Citations Affected:** IC 6-3-1-3.5; IC 6-3-2-3.7; IC 6-3-2-4.

**Synopsis:** Income tax exemption for pension income. Exempts income from pensions, annuities, and individual retirement accounts (IRA) from adjusted gross income taxation. Makes conforming amendments to existing provisions that provide certain partial deductions for retirement income.

**Effective:** January 1, 2004.

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## Whetstone, Frenz

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January 15, 2003, read first time and referred to Committee on Ways and Means.

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First Regular Session 113th General Assembly (2003)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2002 Regular or Special Session of the General Assembly.

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## HOUSE BILL No. 1462



A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

*Be it enacted by the General Assembly of the State of Indiana:*

1 SECTION 1. IC 6-3-1-3.5, AS AMENDED BY P.L.192-2002(ss),  
2 SECTION 67, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
3 JANUARY 1, 2004]: Sec. 3.5. When used in this article, the term  
4 "adjusted gross income" shall mean the following:

5 (a) In the case of all individuals, "adjusted gross income" (as  
6 defined in Section 62 of the Internal Revenue Code), modified as  
7 follows:

- 8 (1) Subtract income that is exempt from taxation under this article
- 9 by the Constitution and statutes of the United States.
- 10 (2) Add an amount equal to any deduction or deductions allowed
- 11 or allowable pursuant to Section 62 of the Internal Revenue Code
- 12 for taxes based on or measured by income and levied at the state
- 13 level by any state of the United States.
- 14 (3) Subtract one thousand dollars (\$1,000), or in the case of a
- 15 joint return filed by a husband and wife, subtract for each spouse
- 16 one thousand dollars (\$1,000).
- 17 (4) Subtract one thousand dollars (\$1,000) for:



- 1 (A) each of the exemptions provided by Section 151(c) of the  
 2 Internal Revenue Code;  
 3 (B) each additional amount allowable under Section 63(f) of  
 4 the Internal Revenue Code; and  
 5 (C) the spouse of the taxpayer if a separate return is made by  
 6 the taxpayer and if the spouse, for the calendar year in which  
 7 the taxable year of the taxpayer begins, has no gross income  
 8 and is not the dependent of another taxpayer.
- 9 (5) Subtract:
- 10 (A) one thousand five hundred dollars (\$1,500) for each of the  
 11 exemptions allowed under Section 151(c)(1)(B) of the Internal  
 12 Revenue Code for taxable years beginning after December 31,  
 13 1996; and  
 14 (B) five hundred dollars (\$500) for each additional amount  
 15 allowable under Section 63(f)(1) of the Internal Revenue Code  
 16 if the adjusted gross income of the taxpayer, or the taxpayer  
 17 and the taxpayer's spouse in the case of a joint return, is less  
 18 than forty thousand dollars (\$40,000).
- 19 This amount is in addition to the amount subtracted under  
 20 subdivision (4).
- 21 (6) Subtract an amount equal to the lesser of:
- 22 (A) that part of the individual's adjusted gross income (as  
 23 defined in Section 62 of the Internal Revenue Code) for that  
 24 taxable year that is subject to a tax that is imposed by a  
 25 political subdivision of another state and that is imposed on or  
 26 measured by income; or  
 27 (B) two thousand dollars (\$2,000).
- 28 (7) Add an amount equal to the total capital gain portion of a  
 29 lump sum distribution (as defined in Section 402(e)(4)(D) of the  
 30 Internal Revenue Code) if the lump sum distribution is received  
 31 by the individual during the taxable year and if the capital gain  
 32 portion of the distribution is taxed in the manner provided in  
 33 Section 402 of the Internal Revenue Code.
- 34 (8) Subtract any amounts included in federal adjusted gross  
 35 income under Section 111 of the Internal Revenue Code as a  
 36 recovery of items previously deducted as an itemized deduction  
 37 from adjusted gross income.
- 38 (9) Subtract any amounts included in federal adjusted gross  
 39 income under the Internal Revenue Code which amounts were  
 40 received by the individual as supplemental railroad retirement  
 41 annuities under 45 U.S.C. 231 and which are not deductible under  
 42 subdivision (1).

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- 1 (10) Add an amount equal to the deduction allowed under Section  
 2 221 of the Internal Revenue Code for married couples filing joint  
 3 returns if the taxable year began before January 1, 1987.  
 4 (11) Add an amount equal to the interest excluded from federal  
 5 gross income by the individual for the taxable year under Section  
 6 128 of the Internal Revenue Code if the taxable year began before  
 7 January 1, 1985.  
 8 (12) Subtract an amount equal to the amount of federal Social  
 9 Security and Railroad Retirement benefits included in a taxpayer's  
 10 federal gross income by Section 86 of the Internal Revenue Code.  
 11 (13) In the case of a nonresident taxpayer or a resident taxpayer  
 12 residing in Indiana for a period of less than the taxpayer's entire  
 13 taxable year, the total amount of the deductions allowed pursuant  
 14 to subdivisions (3), (4), (5), and (6) shall be reduced to an amount  
 15 which bears the same ratio to the total as the taxpayer's income  
 16 taxable in Indiana bears to the taxpayer's total income.  
 17 (14) In the case of an individual who is a recipient of assistance  
 18 under IC 12-10-6-1, IC 12-10-6-2, IC 12-15-2-2, or IC 12-15-7,  
 19 subtract an amount equal to that portion of the individual's  
 20 adjusted gross income with respect to which the individual is not  
 21 allowed under federal law to retain an amount to pay state and  
 22 local income taxes.  
 23 (15) In the case of an eligible individual, subtract the amount of  
 24 a Holocaust victim's settlement payment included in the  
 25 individual's federal adjusted gross income.  
 26 (16) For taxable years beginning after December 31, 1999,  
 27 subtract an amount equal to the portion of any premiums paid  
 28 during the taxable year by the taxpayer for a qualified long term  
 29 care policy (as defined in IC 12-15-39.6-5) for the taxpayer or the  
 30 taxpayer's spouse, or both.  
 31 (17) Subtract an amount equal to the lesser of:  
 32 (A) two thousand five hundred dollars (\$2,500); or  
 33 (B) the amount of property taxes that are paid during the  
 34 taxable year in Indiana by the individual on the individual's  
 35 principal place of residence.  
 36 (18) Subtract an amount equal to the amount of a September 11  
 37 terrorist attack settlement payment included in the individual's  
 38 federal adjusted gross income.  
 39 **(19) Subtract the amount that is included in adjusted gross**  
 40 **income under Section 62 of the Internal Revenue Code and**  
 41 **reported by the individual as:**  
 42 (A) pension and annuity income; or

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- 1                   **(B) for an individual who is at least fifty-nine and one-half**  
 2                   **(59 1/2) years of age, individual retirement account (IRA)**  
 3                   **distributions;**  
 4                   **on the individual's federal income tax return.**  
 5           (b) In the case of corporations, the same as "taxable income" (as  
 6 defined in Section 63 of the Internal Revenue Code) adjusted as  
 7 follows:  
 8           (1) Subtract income that is exempt from taxation under this article  
 9 by the Constitution and statutes of the United States.  
 10           (2) Add an amount equal to any deduction or deductions allowed  
 11 or allowable pursuant to Section 170 of the Internal Revenue  
 12 Code.  
 13           (3) Add an amount equal to any deduction or deductions allowed  
 14 or allowable pursuant to Section 63 of the Internal Revenue Code  
 15 for taxes based on or measured by income and levied at the state  
 16 level by any state of the United States.  
 17           (4) Subtract an amount equal to the amount included in the  
 18 corporation's taxable income under Section 78 of the Internal  
 19 Revenue Code.  
 20           (c) In the case of life insurance companies (as defined in Section  
 21 816(a) of the Internal Revenue Code) that are organized under Indiana  
 22 law, the same as "life insurance company taxable income" (as defined  
 23 in Section 801 of the Internal Revenue Code), adjusted as follows:  
 24           (1) Subtract income that is exempt from taxation under this article  
 25 by the Constitution and statutes of the United States.  
 26           (2) Add an amount equal to any deduction allowed or allowable  
 27 under Section 170 of the Internal Revenue Code.  
 28           (3) Add an amount equal to a deduction allowed or allowable  
 29 under Section 805 or Section 831(c) of the Internal Revenue Code  
 30 for taxes based on or measured by income and levied at the state  
 31 level by any state.  
 32           (4) Subtract an amount equal to the amount included in the  
 33 company's taxable income under Section 78 of the Internal  
 34 Revenue Code.  
 35           (d) In the case of insurance companies subject to tax under Section  
 36 831 of the Internal Revenue Code and organized under Indiana law, the  
 37 same as "taxable income" (as defined in Section 832 of the Internal  
 38 Revenue Code), adjusted as follows:  
 39           (1) Subtract income that is exempt from taxation under this article  
 40 by the Constitution and statutes of the United States.  
 41           (2) Add an amount equal to any deduction allowed or allowable  
 42 under Section 170 of the Internal Revenue Code.

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1 (3) Add an amount equal to a deduction allowed or allowable  
 2 under Section 805 or Section 831(c) of the Internal Revenue Code  
 3 for taxes based on or measured by income and levied at the state  
 4 level by any state.

5 (4) Subtract an amount equal to the amount included in the  
 6 company's taxable income under Section 78 of the Internal  
 7 Revenue Code.

8 (e) In the case of trusts and estates, "taxable income" (as defined for  
 9 trusts and estates in Section 641(b) of the Internal Revenue Code)  
 10 reduced by:

11 (1) income that is exempt from taxation under this article by the  
 12 Constitution and statutes of the United States; and

13 (2) an amount equal to the amount of a September 11 terrorist  
 14 attack settlement payment included in the federal adjusted gross  
 15 income of the estate of a victim of the September 11 terrorist  
 16 attack or a trust to the extent the trust benefits a victim of the  
 17 September 11 terrorist attack.

18 SECTION 2. IC 6-3-2-4 IS AMENDED TO READ AS FOLLOWS  
 19 [EFFECTIVE JANUARY 1, 2004]: Sec. 4. Each taxable year, an  
 20 individual, or the individual's surviving spouse, is entitled to an  
 21 adjusted gross income tax deduction for the first two thousand dollars  
 22 (\$2,000) of income, ~~including~~ **excluding** retirement or survivor's  
 23 benefits, received during the taxable year by the individual, or the  
 24 individual's surviving spouse, for the individual's service in an active  
 25 or reserve component of the armed forces of the United States,  
 26 including the army, navy, air force, coast guard, marine corps,  
 27 merchant marine, Indiana army national guard, or Indiana air national  
 28 guard. ~~However, a person who is less than sixty (60) years of age on the~~  
 29 ~~last day of the person's taxable year, is not, for that taxable year,~~  
 30 ~~entitled to a deduction under this section for retirement or survivor's~~  
 31 ~~benefits.~~

32 SECTION 3. IC 6-3-2-3.7 IS REPEALED [EFFECTIVE JANUARY  
 33 1, 2004].

34 SECTION 4. [EFFECTIVE JANUARY 1, 2004]  
 35 **IC 6-3-1-3.5(a)(19) and IC 6-3-2-4, both as amended by this act,**  
 36 **and the repeal of IC 6-3-2-3.7 by this act apply only to taxable**  
 37 **years beginning after December 31, 2003.**

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